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A Report of The New Jersey Education Reform Project

NEWARK SCHOOL FINANCE PROFILE

1977 - 1978

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INTRODUCTION

Recent analyses of the fiscal impact of the Public School Education Act of 1975 conducted by the New Jersey Education Reform Project and the Educational Policy Research Institute (Educational Testing Service) have demonstrated that the manner in which education revenues are raised and distributed in New Jersey continues to favor wealthier school districts. Low wealth, property poor, high tax school districts did not receive a significant proportion of the 400 million dollars spent on increased state aid to education in 1976-1977.

Three fourths of the major cities in New Jersey are in the lowest property wealth category and one of those cities, Newark, is the largest school district in the State. The new school finance system did not do much to ease Newark's plight: educational expenditures are considerably below the State average and the tax rate is nearly double the State average.

Many people believe that most state aid to education funds were allocated to Newark and other cities, when in reality the reverse occurred. In many respects, Newark's position has worsened since the so-called reforms were enacted.

The purpose of this brief school finance profile is to examine Newark's position in relation to the State and Essex County.

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Expenditure Levels

In 1977-78, two years after the enactment of Chapter 212, Newark's total expenditures per pupil (current expense budget) were \$1912.05. That year, Newark spent 4.1% below the State average, \$1990.74; and 4.5% below the Essex County average, \$1998.13. In 1974-75, prior to the enactment of Chapter 212, Newark spent \$1731.25 per pupil. The 1974-75 expenditure level was 17.6% above the \$1471.72 State average and 5.8% above the Essex County average, \$1636.28 (see Figure 1). In comparison, Newark has lost ground in relation to the State and County average current expense budget expenditure levels since the new education law (Chapter 212) has been in force. In 1977-78, Newark's total expenditures per pupil were among the lowest in Essex County (see Figure 2).

Actually, the expenditure disparities are even more striking than the statistics cited above suggest. If revenues, particularly monies for special needs students, are deducted from the current expense budget and net operating budget per pupil is used as a measure, the gap between 1977-78 State, Essex County, and Newark expenditure levels widens (see Figure 3). Newark's current net operating budget per pupil is 11.4% below the State average and 12.6% below the Essex County average.

State Aid to Education

Contrary to popular belief, Newark does not receive the lion's share of State Aid to Education. In 1977-78, State aid per pupil for Newark had increased 20.27% over the 1974-75 level. However, under Chapter 212 the greatest increases in aid went to the State as a whole. Between 1974-75 and 1977-78, average State aid per pupil increased by 75.85%. In Essex County, the average increase per pupil for the same period was 43.34% (see Figure 4).

Newark will receive 77 million dollars in equalization aid for 1978-79 to compensate for the City's low tax base and limited capacity to generate revenues. Newark's

equalization allocation is 10.61% of that year's total 730 million dollars in State equalization aid. The remaining 652 million dollars, 89.39% will be distributed to other New Jersey school districts.

Newark's Tax Base

The property tax continues to be the major source of financing municipal services as well as the means school districts use to raise the level of education expenditures from one year to the next. The initial year of a budget increase must be totally financed by the local district, without State aid. Newark's property base, the equalized valuation per pupil, is the lowest in Essex County (see Figure 5). The County average equalized valuation per pupil is twice as high as Newark's, the average for the State is three times higher. The same equalized tax rate would generate three times the revenue for the average municipality in the State than it would in Newark.

EXAMPLE:

	(A) Equalized Tax Rate (\$2.00)	(B) Equalized Valuation/Pupil	(C) Tax Revenues
State Average	.02 (2%)	\$78,164	\$1563.28
Newark	.02 (2%)	\$24,722	\$ 494.44

$$*Equation: (A \times B = C)$$

Newark's Tax Rate

Newark has one of the highest equalized tax rates in the State. The 1977 levy was 21.73% higher than the Essex County average and 91.69% above the State average (see Figure 6). The gap between Newark's equalized tax rate and the State average has actually increased since the enactment of Chapter 212. In 1974, Newark's total equalized tax was 72.25% above the State average, nearly 20% less than the 1977 disparity (see Figure 7).

Most of Newark's tax revenues are used to finance essential municipal services. The combination of high municipal expenditures, high tax rate, and low property base (municipal overburden) has resulted in a low school tax rate. The City's 1977 equalized school tax rate was 25% of the total tax. The State average equalized school tax that year was 54.7% of the total tax.

Newark's Property Tax Burden

It is well known that the burden of the property tax falls unequally across income levels. Property taxes cost those in lower income groups a greater proportion of their personal income. The New Jersey Department of Labor and Industry estimated the 1975 median family income in the State at \$16,432, an increase of 26.16% over the 1969 level listed in the U.S. Census. If the median family income in Newark has increased by the same percentage to \$9,758, Newark's tax burden is greater than in the State as a whole. Assuming the disparities evident in the 1971 chart reproduced below have not changed substantially, the burden of the property tax on income in Newark is 7.2% compared to 5.4% for the State as a whole. In actual dollars, the equalized tax rate in Newark is almost double the State average.

Chart 1*

Effective Property Tax Rates by Income

For New Jersey in 1971

	Under	3,000	5,000	7,500	10,000	15,000	25,000
		to	to	to	to	to	and
<u>Average</u>	<u>\$3,000</u>	<u>5,000</u>	<u>7,500</u>	<u>10,000</u>	<u>15,000</u>	<u>25,000</u>	<u>Over</u>
6.1%	14.2%	9.6%	8.5%	7.2%	6.4%	5.4%	2.9%

*The New Jersey Tax Policy Committee, 1972.

Current Educational Costs in Newark

At first glance, Newark's current expense budget seems gigantic. What escapes many observers is that Newark is the largest school system in the State and that its

per pupil expenditures are below the State average. When the 101 million dollar net operating budget is divided among the 67,726 pupils in the Newark system, the result is a modest per pupil expenditure level (see Figure 3).

Calculations:

$$\frac{\text{Net Operating Budget}}{\text{Enrollment}} = \text{Net Operating Budget (N.O.B.) / Pupil}$$

$$\frac{\$101,051,043}{67,726} = \$1,492$$

In addition, there are a number of costs that may be greater for Newark than for other districts. Pensions, insurance and hospitalization premiums, and supplemental fringe benefits alone account for 8 million dollars (approximately 6% of the 1977-78 budget. High staff costs for the Attendance Bureau, Security Services, School Security Guards, and the repair and maintenance of an aged physical plant, are uncommon to most other districts. Newark also has an ambitious after school recreation program, which is considered an important part of school and community life. Fixed charges and other necessary special costs, are also high (see Figure 8).

Using a conservative estimate, these costs for 1977-78 total approximately \$23,924,596 or \$353.26 per pupil. If a mere 1/3 of that per pupil amount can be attributed to atypical costs, i.e., costs that are either higher or unique in a large urban district like Newark, the effective 1977-78 total expenditure per pupil (Figure 2) would be \$117.75 less.

It is important that policymakers, educators, and the public in general have a clear understanding of school finance in Newark and the extent that external fiscal processes influence the educational system.

Figure 1

TOTAL CURRENT EXPENDITURES PER PUPIL
(CURRENT EXPENSE BUDGET) 1974-75 and 1977-78

	1974-75	1977-78	Percent Increase
Newark Exp/Pupil	1731.25	1912.05	10.44
State Avg Exp/Pupil	1471.72	1990.74	35.27
Essex Cty Avg Exp/Pupil	1636.28	1998.13	22.11

Figure 2

1977-78 TOTAL CURRENT EXPENDITURES PER PUPIL
OF ESSEX COUNTY SCHOOL DISTRICTS

<u>District</u>	<u>Rank</u>	<u>Total Current Expenditures Per Pupil</u>
Millburn	1	2593.84
Essex Fells	2	2519.05
Montclair	3	2490.96
Caldwell/		
W. Caldwell	4	2433.14
N. Caldwell	5	2335.61
Glen Ridge	6	2311.94
West Orange	7	2277.99
Roseland	8	2250.08
Cedar Grove	9	2170.52
So. Orange/		
Maplewood	10	2151.22
Orange	11	2148.25
Livingston	12	2126.86
W. Essex Reg.	13	2042.02
Verona	14	2028.80
ESSEX CTY AVG	-	1998.13*
STATE AVG	-	1990.74*
NEWARK	15	1912.05*
Nutley	16	1847.07
Bloomfield	17	1844.51
Belleville	18	1778.51
East Orange	19	1752.34
Fairfield	20	1733.25
Irvington	21	1641.82

Figure 3

1977-78 NET OPERATING BUDGET (N.O.B.) PER PUPIL
OF ESSEX COUNTY SCHOOL DISTRICTS

<u>District</u>	<u>Rank</u>	<u>Net Operating Budget (NOB) Per Pupil</u>
Essex Falls	1	2,445
Millburn	2	2,308
Caldwell/ W. Caldwell	3	2,207
Glen Ridge	4	2,189
Montclair	5	2,086
West Orange	6	2,029
So. Orange/ Maplewood	7	2,016
N. Caldwell	8	2,009
Roseland	9	1,956
Livingston	10	1,904
Verona	11	1,874
Cedar Grove	12	1,868
Orange	13	1,828
W. Essex Reg.	14	1,705
Bloomfield	15	1,691
ESSEX CY AVG	-	1,680*
STATE AVERAGE	-	1,662*
Nutley	16	1,602
Belleville	17	1,595
NEWARK	18	1,492*
East Orange	19	1,484
Irvington	20	1,427
Fairfield	21	1,310

Figure 4

STATE AID PER PUPIL
(CURRENT EXPENSE AND SCHOOL BLDG. AID)
1974-75 and 1977-78

	1974-75	1977-78	Percent Increase
Newark Aid Per Pupil	1,154	1,388	20.27
State Avg Per Pupil	381	670	75.85
Essex Cty Avg Per Pupil	679*	987*	43.36

*These figures rounded, Figure 4.

Figure 5

1977-78 EQUALIZED VALUATION PER PUPIL
OF ESSEX COUNTY SCHOOL DISTRICTS

<u>District</u>	<u>Rank</u>	<u>Equalized Valuation Per Pupil</u>
Millburn	1	184,782
Essex Fells	2	152,674
Fairfield	3	139,187
W. Essex Reg.	4	124,202
Roseland	5	119,445
Livingston	6	116,209
Caldwell/ W. Caldwell	7	113,069
Cedar Grove	8	105,489
Nutley	9	94,358
Verona	10	92,976
So. Orange/ Maplewood	11	92,898
N. Caldwell	12	92,151
Bloomfield	13	89,189
West Orange	14	89,030
Montclair	15	84,261
STATE AVG	-	78,164*
Belleville	16	76,191
Glen Ridge	17	62,748
ESSEX CTY AVG	-	56,507*
Irvington	18	52,352
Orange	19	42,819
East Orange	20	33,464
NEWARK	21	24,722*

Figure 6

1977 EQUALIZED TOTAL TAX RATES
OF ESSEX COUNTY SCHOOL DISTRICTS

<u>District</u>	<u>Rank</u>	<u>Equalized Total Tax Rate</u>
East Orange	1	7.63
Orange	2	6.89
NEWARK	3	5.77*
Glen Ridge	4	5.49
Irvington	5	5.08
Montclair	6	5.01
So. Orange/		
Maplewood	7	4.84
West Orange	8	4.83
ESSEX CTY AVG	-	4.74*
Bloomfield	9	4.43
Caldwell/		
W. Caldwell	10	4.33
N. Caldwell	11	4.16
Belleville	12	4.15
Verona	13	4.10
Nutley	14	3.74
Roseland	15	3.65
Livingston	16.5	3.38
Millburn	16.5	3.38
Essex Falls	17	3.32
Cedar Grove	18	3.12
Fairfield	19	3.03
STATE AVG	-	3.01*

Figure 7

EQUALIZED TOTAL TAX RATES, 1972 to 1977
NEWARK, ESSEX COUNTY AVERAGE, STATE AVERAGE

	1972	1973	1974	1975	1976	1977
Newark Tax	6.60	6.47	5.65	6.00	6.20	5.77
Essex Cty						
Avg Tax Rate	5.33	5.12	4.85	4.88	5.04	4.74
State Avg						
Tax Rate	3.65	3.46	3.28	3.17	3.26	3.01

Figure 8

SELECTED ATYPICAL COST BUDGET LINE ITEMS
NEWARK 1977-1978 CURRENT EXPENSE BUDGET

<u>Salaries and Related Costs</u>	<u>Amount Budgeted</u>
Attendance bureau	1,893,646
Buildings and facilities	78,000
Recreation	1,565,666
Repair and maintenance	1,997,638
Security services	896,557
School Security Guards	1,924,300
Pension administration	167,000
F I C A	500,000
Hospitalization premiums	4,910,609
College Retirement Fund	2,240,000
Teachers Pension & Annuities	1,225,000
Supplemental fringe benefits	947,000
Employee Ins. (direct payment)	225,000
<u>Other Costs</u>	
Liability Ins (building use)	371,000
Property Insurance	325,000
Student I.D. Cards	13,636
Advertising	21,884
Refuse removal	175,500
Exterminating	28,000
Electric and gas	1,900,000
Fuel oil (heating)	1,500,660
Repairs, boiler-general	420,000
Repairs, painting	266,000
Repairs, glazing	60,000
Repairs, miscellaneous buildings, grounds, equipment	272,500
TOTAL	\$ 23,924,596

PER STUDENT COST: \$ 353.26

Total Atypical Cost = Per Student Cost

1977-78 Enrollment

\$ 23,924,596 = \$353,2557

67,726

REFERENCES

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GLOSSARY

- ATYPICAL COSTS: Costs which may be unique to specific types of school districts, higher in different areas of the State, or represent an above average proportion of the current expense budget.
- CATEGORICAL AID: Federal or State aid that is awarded for a specific use or category, such as bilingual aid, special education aid, transportation aid, etc.
- CHAPTER 212: The Public School Education Act of 1975, also known as the "Thorough and Efficient Law".
- CURRENT EXPENDITURES (Current Expense Budget): Educational expenditures associated with the daily operation of the school program. Includes categorical aid, tuition received, and surplus revenues; but excludes debt service and capital construction.
- EQUALIZATION AID: State aid to education that compensates school districts with a low property base up to a minimum equalized property valuation per pupil.
- EQUALIZED PROPERTY VALUATION: A measure of school district wealth. The value of taxable property in a district adjusted to reflect 100 percent of market value.
- EQUALIZED TAX RATE: A property tax rate adjusted to reflect an assessment ratio 100 percent of market value. Equalized tax rates facilitate comparisons between districts where the percent of market value property is assessed (assessment ratio) differs.
- NET OPERATING BUDGET (Net Current Expense Budget): A school district's current expense budget after surplus funds, tuition revenue, and categorical aid are deducted.
- PER STUDENT COST (Per Pupil Cost): The total cost to a district of an item(s) or service(s) divided by the district's student enrollment.
- SPECIAL NEEDS STUDENTS: Groups or categories of students who require special or additional services beyond the regular school program. Examples of special needs categories are: bilingual, special education, compensatory education, etc.